

Message Text

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12
ACTION SS-25

INFO OCT-01 ISO-00 /026 W
----- 011377
R 220630Z MAY 75
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 198
INFO AMEMBASSY TOKYO

C O N F I D E N T I A L SEOUL 3618

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EXDIS
DEPARTMENT PLEASE PASS ASST. SECY HABIB IN CANBERRA; PASS
INFO SECDEF WASHDC AND CINCPAC

E. O. 11652: GDS
TAGS: MASS, KS
SUBJECT: FUTURE AIRCRAFT PURCHASE PLANS

SUMMARY: EMBASSY BELIEVES WE SHOULD CONTINUE TO TAKE FIRM LINE ON
NONAVAILABILITY FMS FUNDS FOR F-4ES AND LIMITED FMS FOR F-5ES.
WE ALSO BELIEVE GENERAL DYNAMICS MAY BE OVER SELLING F-16 AT THIS
STAGE. LING TEMCO VOUGHT HAS RESURFACED THE A-7 BUT IT IS NOT A
PROBLEM AS YET. END SUMMARY.

1. ROKS HAVE CONTINUED TO DEVELOP PLANS REGARDING FUTURE AIRCRAFT
PURCHASES. WHILE PICTURE NOT AS YET WHOLLY CLEAR OR UNALTERABLE
NEW OUTLINE OF ROK THINKING IS EMERGING.

2. ONE RECENT ROKG DECISION IS ADVANCEMENT OF F-4E SQUADRON TO
HIGHER POSITION ON ITS OWN COPY OF SECURITY ASSISTANCE PRIORITY
LIST THAN 60 FOLLOW-ON F-5ES. IN NEW SET OF EQUIPMENT PRIORITIES
GIVEN TO JUSMAG MAY 8, ROKS LISTED F-4E SQUADRON (19 PLANES AT
COST OF \$126 MILLION) NUMBER FOUR JUST BEHIND WAR RESERVE AMMO,
LAST 27 PLANES OF ORIGINAL F-5E BUY, AND BAILED SQUADRON OF
F-4DS. BY DOING THIS ROKS CLEARLY HOPE TO BE ABLE TO APPLY ANY FY76
FMS CREDIT WHICH MIGHT BE AVAILABLE TO F-4ES, LEAVING F-5ES TO
LATER YEARS.

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3. AT SAME TIME, AS WASHINGTON AGENCIES ALREADY AWARE ROKS ARE IN
PROCESS RECONSIDERING F-5E CO-PRODUCTION. WE NOW UNDERSTAND THAT
ROKAF CHIEF OF STAFF, GENERAL CHU YONG-BOK, HAS OBTAINED MND SUH
APPROVAL TO PURCHASE RATHER THAN CO-PRODUCE 60 F-5ES (THEREBY

REDUCING COST FROM OVER \$260 MILLION TO \$215 MILLION), THAT BLUE HOUSE SENIOR SECRETARY O WON-CHOL APPROVED PURCHASE APPROACH, AND THAT FINAL DECISION IS BEFORE PRESIDENT PAK. INSTEAD OF CO-PRODUCTION WHICH NOW SEEMS INCREASINGLY UNLIKELY ROKS WILL CONCENTRATE ON DEVELOPMENT \$35 MILLION AIRCRAFT MAINTENANCE FACILITY WHICH REMAINS JUST AHEAD OF F-5ES ON THEIR PRIORITY LIST.

4. IN ADDITION TO ABOVE ROKS CONTINUE TO GIVE SOME ATTENTION TO NEXT GENERATION AIRCRAFT. HIGH LEVEL. GENERAL DYNAMICS (GD) GROUP INCLUDING INTERNATIONAL VICE PRESIDENT OTTO GLASSER CAME TO SEOUL A FEW WEEKS AGO IN RESPONSE ROK INTEREST IN F-16S, AND SEVERAL TECHNICAL LEVEL GD PERSONNEL HAVE JUST COMPLETED PRELIMINARY SURVEY OF POTENTIAL ROK AIRCRAFT MAINTENANCE AND ASSEMBLY CAPABILITIES. GD AND ROKG HAVE TALKED ABOUT POSSIBILITY DELIVERING TWO SQUADRONS F-16S INITIALLY, WITH CO-ASSEMBLY AS POSSIBLE FOLLOW-ON PROJECT. GD HAS MAINTAINED FIRMLY THAT ANY ACTIVITY BEYOND KNOCKDOWN CO-ASSEMBLY IS UNREALISTIC. IN EFFORT TO MEET ROK DESIRE TO KEEP NEW AIRCRAFT FLOWING FOLLOWING COMPLETION OF PROJECTED F-4E AND F-5E DELIVERIES, GENERAL DYNAMICS OFFICIALS HAVE BEEN SURPRISINGLY FORTHCOMING IN SAYING THAT IF USG APPROVES COMPANY SHOULD BE ABLE TO OPEN NECESSARY PRODUCTION FACILITIES IN U.S. TO ENABLE INITIAL DELIVERY OF F-16S TO KOREA BY EARLY 1979. KOREANS ARE NOT RUSHING INTO DECISION, BUT ARE NOW WAITING FOR OUTCOME USG DECISION REGARDING NORTHROP F-18 FOR US NAVY, AND WILL PRESUMABLY STUDY BOTH F-16 AND F-18 THOROUGHLY IF DECISION MADE TO GO AHEAD WITH F-18 PROGRAM. HOWEVER, PROMISED EARLY DELIVERY OF F-16S IS CLEARLY ENTICING THOUGHT FOR ROKS AND GD HAS MADE MUCH OF THIS SALES POINT.

5. IN MIDST ABOVE LING TEMCO VOUGHT'S A-7 HAS POPPED UP AGAIN IN NEW FORM. LTV REPRESENTATIVE B.W. MARSHALL RECENTLY CAME T SEOUL AND CLAIMED HE COULD OFFER FULL WING OF A-7S WRAPPED IN \$200 MILLION FINANCE PACKAGE OF EUROPEAN COMMERCIAL BANK MONEY THAT CARRIED DAZZLING FEATURE OF THIRTY YEAR TERM AND TEN YEAR GRACE PERIOD. WE FRANKLY TEND TO DISCOUNT THIS AS UNREAL, BUT WE UNDERSTAND SOME QUARTERS OF ROKG MAY HAVE SEEN POSSIBILITIES HERE. GIVEN ROK HANKERING FOR LONG DISTANCE AIRCRAFT AND LONG TERM CONFIDENTIAL

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MONEY IT IS JUST POSSIBLE SOME FORM OF A-7 DEAL COULD STILL RESURFACE.

6. COMMENT: PROSPECTIVE DECISIONS TO PURCHASE F-5ES AND CONCENTRATE ON MAINTENANCE FACILITY INSTEAD OF CO-PRODUCTION MAKE SENSE. ROK DESIRE TO MOVE F-4ES HIGHER ON PRIORITY LIST IS QUESTIONABLE HOWEVER, AND WHILE WE HAVE IN NO WAY DISCOURAGED F-4E PURCHASE IDEA, WE HAVE NOT SUBSCRIBED TO THIS PRIORITY SHIFT AND CHIEF JUSMAG HAS INFORMALLY CAUTIONED ROKS ON SEVERAL OCCASIONS NOT TO EXPECT FMS CREDIT FOR THESE AIRCRAFT.

7. WE ARE ALSO A BIT CONCERNED ABOUT POSSIBILITIES OF OVERSELL ON PART GENERAL DYNAMICS REPS. WHILE THEY HAVE PROBABLY BEEN CAREFUL FOR MOST PART WE SUSPECT EVEN CAREFULLY WORDED STATEMENTS

REGARDING 1979 DELIVERY MAY BE TOO OPTIMISTIC. IF THIS IS TRUE DEPARTMENT MAY WISH TO TAKE SOME SOUNDINGS WITH GENERAL DYNAMICS AND IF NECESSARY CAUTION COMPANY TO MODIFY PROMISES ON DELIVERY. AT SAME TIME WE WOULD APPRECIATE GUIDANCE ON THIS POINT FOR OUR OWN CONVERSATIONS WITH ROKS.

8. AS FOR A-7S WE BELIEVE IT ENOUGH FOR THE MOMENT SIMPLY TO WATCH FOR FURTHER DEVELOPMENTS. IF SOMETHING REAL DOES BEGIN TO EMERGE HERE AND BARRING NEW FACTORS OF WHICH WE UNAWARE WE WILL DISCOURAGE THIS SCHEME ON GROUNDS ROKS HAVE PLENTY IN THE WAY OF AIRCRAFT TO DIGEST AS IS.

9. APART FROM ABOVE, FACTOR THREADING THROUGHOUT AIRCRAFT PICTURE OF GREATEST CONCERN IS FINANCING. CURRENT F-4E AND F-5E PURCHASE PLANS ALONE WILL RUN UPWARDS OF \$340 MILLION. GIVEN MOST OPTIMISTIC LEVELS FOR FUTURE FMS CREDIT AND OTHER REQUIREMENTS FOR THESE FUNDS IT APPEARS LIKELY TO US AS PARTIALLY INDICATED SEOUL 1717 THAT FMS CREDIT WILL ONLY FILL RELATIVELY SMALL PORTION F-5E REQUIREMENT AND THAT ROKG WILL HAVE TO FUND SUBSTANTIAL PORTION F-5ES ON ITS OWN IN ORDER TO ATTRACT NECESSARY COMMERCIAL BANK FINANCING. (THIS WILL BE TRUE EVEN IF ROKS REDUCE COST BY MAKING DIRECT BUY INSTEAD OF CO-PRODUCING.) ROKS DO NOT AS YET HAVE REALISTIC VIEW OF THIS REQUIREMENT. MOREOVER CONTRARY TO STATEMENT IN STATE 116454 THEY REMAIN OPTIMISTIC THAT FMS CREDIT WILL BE AVAILABLE FOR F-4ES.

10. UNC AND CHIEF JUSMAG HAVE ALREADY TALKED WITH MND COUNTERPARTS ABOUT F4/T FINANCING PROBLEMS, OUTLINING SHORTAGE OF FMS FUNDS FOR CONFIDENTIAL

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F-5ES AND TOTAL UNAVAILABILITY ANY FMS FOR F-4ES. WE HAVE ALSO TOLD KOREANS ABOUT UNAVAILABILITY COMMERCIAL BANK FUNDS FOR F-4E AND NORTHROP REPS HAVE INFORMED THEM OF SUBSTANTIAL REQUIREMENT FOR ROKG FUNDS FOR F-5E WHICH WILL BE REQUIRED TO ENLIST COMMERCIAL BANK PARTICIPATION. WE CONTINUE TO BELIEVE A) THAT THIS IS PROPER ALLOCATION OF LIMITED FMS FUNDS WHICH WILL BE AVAILABLE, B) MORE SPECIFICALLY THAT ADDITIONAL F-5ES MAKE MORE SENSE STRATEGICALLY AND ECONOMICALLY THAN F-4ES AT THIS TIME AND WE SHOULD NOT GO ALONG WITH ROK SWITCH IN F-4E PRIORITY, AND C) THAT WE SHOULD CONTINUE TO TAKE THIS FIRM LINE IN EFFORT TO GET ROKS TO FOCUS ON HARD FINANCIAL REALITIES AND TO SORT OUT THEIR AIRCRAFT PRIORITIES ACCORDINGLY. WE RECOGNIZE ON OTHER HAND THAT WE COULD BE MORE FLEXIBLE WITH REGARD TO FMS CREDIT ALLOCATIONS IF WE CHOSE. WOULD APPRECIATE CONFIRMATION THEREFORE THAT OUR FIRM LINE IS INDEED ONE WE INTEND TO FOLLOW.

SNEIDER

NOTE BY OC/T: NOT PASSED ABOVE ADDEES.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY AIRCRAFT, POLICIES, MILITARY SALES, MILITARY PLANS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SEOUL03618
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750179-0735
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197505104/baaaauijk.tel
Line Count: 160
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 08 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <08 JUL 2003 by ShawDG>; APPROVED <17 NOV 2003 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: MASS, KS, US
To: STATE INFO TOKYO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006